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Financial reports and audited financial statements, and reports of the Board of Auditors

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Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Board of Auditors on the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2002,[1] its report on the implementation of its recommendations relating to the biennium 2000-2001 (A/58/114) and its progress report on the capital master plan (A/58/321). The Advisory Committee also received a special report on the management of staff training in the United Nations (including peacekeeping operations) and its funds and programmes (see annex). In addition, the Advisory Committee had before it the second report of the Secretary-General on the implementation of the recommendations of the Board of Auditors on the accounts of the United Nations (A/58/97) and of the United Nations funds and programmes (A/58/97/Add.1) for the biennium ended 31 December 2001. During its consideration of the matter, the Committee met with the United Nations Audit Operations Committee.

United Nations High Commissioner for Refugees

2. The Board of Auditors audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the period from 1 January to 31 December 2002 and the operations of the United Nations High Commissioner for Refugees (UNHCR) at its headquarters in Geneva and at its offices in Bangladesh, Guinea, Myanmar and Thailand for the same period. The main findings of the Board are listed in the summary of its report.[1]

3. A number of issues raised by the Board were also addressed by the Advisory Committee in the context of its consideration of the programme budget of UNHCR for 2004 (A/AC.96/979 and Corr.1). Since the report of the Committee

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(A/AC.96/979/Add.1) is submitted directly to the Executive Committee of the High Commissioner's Programme, it summarizes those concerns below.

4. The Board of Auditors informed the Advisory Committee that, without qualifying its opinion on the 2002 financial statements, its audit opinion had been "modified", drawing attention to its finding on the adequacy of assurance obtained by UNHCR that funds had been properly used for the purpose intended and on the significant understatement of some $70 million in the disclosure of non-expendable property.[2] The Board also drew attention to the fact that there was a lack of adequate assurance that all funds provided to implementing partners had been used for the intended purposes. As at June 2003, the use of $14.2 million reported as expenditure in the financial statements remained unjustified.[3] The Committee was informed that, during meetings held by the Board with UNHCR management in September 2003, UNHCR confirmed that it had taken measures to resolve this problem. The Committee was further informed that UNHCR had reported to the Board that, as at 24 July 2003, the outstanding amount yet to be justified had been reduced to $6.8 million.

5. The Advisory Committee points out that the Board noted once again that UNHCR ended the year 2002 with a significant shortfall of $50 million, with total expenditure amounting to some $908 million. The Board found that the increase in expenditure, mostly from general and supplementary programme funds, was not matched by appropriate resources.[4] The statement of income and expenditure and changes in reserves and fund balances of the voluntary funds administered by UNHCR did not include $21 million received from the United Nations regular budget, which is recorded in the United Nations general fund.[5]

6. The Advisory Committee notes the observation of the Board that reserves had been reduced from $196 million in 1998 to $120 million in 2002 due to the successive shortfall of income over expenditure and that non-earmarked available reserves were down to $50 million.[6]

7. The Advisory Committee notes that the Board reiterated its view that the issue of non-funded liabilities for end-of-service and post-retirement benefits was a matter of concern, especially for a voluntarily funded programme such as UNHCR. Unfunded liabilities for after-service health insurance (calculated on an accrued liability basis), accrued annual leave and termination benefits amounted to $263 million.[7]

8. The comments and observations of the Board of Auditors on human resources management in UNHCR are contained in paragraphs 69 to 133 of its report, and its main findings are set out in items (g) to (k) of the summary of the report.[1]

9. The Advisory Committee notes that the Board found that for the period from 1998 to 2002, the number of staff employed had consistently exceeded the number of staff posts. The gap ranged from 104 posts in 2000 to 952 in 2002 (20 per cent more than the posts allotted for 2002).[8] In its report on the UNHCR programme budget for 2004, the Committee shared the concern of the Board about the gap between staff members and posts and the increasing number of staff charged to temporary assistance (which funds staff not linked to a post) under "other staff costs" (see A/AC.96/979/Add.1, para. 16).

10. The Advisory Committee notes that the Board has commented again on the issue of UNHCR "project staff". The Office of the UNHCR Inspector General and

the Office of Internal Oversight Services have also reviewed this matter in the past. The internal auditors have observed that UNHCR project staff comprise individuals employed nominally by other organizations but who in fact work under direct UNHCR management in administrative positions (such as protection assistants, administrative, information technology or logistics assistants, clerks, radio operators, drivers, guards, etc.) with functions generally equivalent to those of staff at the General Service and National Officer level. The main reasons for resorting to the use of these staff, according to the internal auditors, had been to recruit outside the authorized staffing table, thus circumventing the established budgetary procedures.[9] During its review of the UNHCR programme budget for 2004, the Committee, at its request, was informed of steps taken, as at 5 September 2003, to address the situation of the remaining 145 project staff (see A/AC.96/979/Add.1, para. 17 and annex II).

11. The Advisory Committee notes that the Board of Auditors has made specific recommendations on the management of UNHCR "staff-in-between-assignments".[10] The Board indicated that at the end of December 2002, 113 Professional and 16 General Service staff members were without assignment after the expiration of their standard assignment but remained on special leave with full pay. Overall, Professional staff were without assignment for 350 person-years from 1998 to 2002, at the cost of several million dollars a year, according to the Board. Such staff undertake temporary assignments for which they are qualified, but a minority are not tasked with any assignment at all, some of them for an extended period of time (for example, as at 1 October 2002, 3 D-1 and 1 P-5 staff members had not worked at all for UNHCR for 15, 30, 43 and 44 months respectively, while being on special leave with full pay for the entire period).[11] During its review of the UNHCR annual programme budget for 2004, the Committee expressed concern and requested that the High Commissioner take urgent action to comply with the recommendations of the Board of Auditors and report on the management of "staff-in-between-assignments" in the next budget report. The Committee also welcomed the intention of the High Commissioner to introduce reforms, be more transparent and exercise stronger control of the staffing table (see A/AC.96/979/Add.1, para. 19).

12. The Board's findings on specific allowances and benefits for UNHCR staff posted in hardship duty stations are discussed in paragraphs 125 to 133 of its report.[1] The Advisory Committee agrees with the view of the Board that the creation of a specific staff allowance, the housing maintenance element, exceeded the delegation of authority granted to the High Commissioner and is not in line with the standard United Nations provisions in similar locations and circumstances. The Board has recommended that UNHCR review the legal basis of its specific allowances, in consultation with the International Civil Service Commission, as appropriate, with a view to ensuring compliance with the United Nations Staff Regulations and Rules.[12]

Implementation of recommendations

13. The report of the Board of Auditors on the implementation of its recommendations relating to the biennium 2000-2001 (A/58/114), updated as at 25 June 2003, covers 15 United Nations entities on which the Board reports on a biennial basis. The report includes comments by the Board based on the reports of the Secretary-General on the implementation of recommendations by the United Nations (A/58/97) and its funds and programmes (A/58/97/Add.1). Entities on

which the Board reports annually (United Nations peacekeeping operations and, as discussed above, the voluntary funds administered by the United Nations High Commissioner for Refugees) are not included. Their follow-up is, as usual, covered in an annex to the reports of the Board to the General Assembly (see A/58/114, para. 3).

14. The report includes comments of the Board on the implementation of recommendations by the United Nations Joint Staff Pension Fund based on the information that the Fund provided directly to the Board (ibid., para. 30) and on the implementation of recommendations by the Office of Legal Affairs on the handling of arbitration and claims cases (ibid., para. 16).

15. The Advisory Committee notes that the number of recommendations of the Board has more than doubled over the past three bienniums, from 156 for the biennium 1996-1997 and 208 for the biennium 1998-1999 to 337 for the biennium 2000-2001. Of the 337 recommendations made by the Board, only 117 (or 35 per cent) had been fully implemented by June 2003, while 195 (or 58 per cent) were under implementation and 24 (or 7 per cent) had not been implemented at all. The remaining three recommendations (or 1 per cent) were overtaken by events (see ibid., para. 13).

16. The Advisory Committee was informed that all organizations had provided a time frame for the implementation of the majority of recommendations and had disclosed the office-holders to be held accountable for this task. The Board indicated that, in general, the organizations had mechanisms to monitor the implementation of its recommendations. The Committee notes that the Board intends to follow up on the effectiveness of these mechanisms, which should be reflected in the rate of implementation.

17. The Board noted that the text of the recommendations relating to the previous biennium and the gist of the comments on their implementation were repeated in the two reports of the Administration, pertaining to the United Nations and to its funds and programmes (A/58/97/Add.1), as well as in the report of the Board (A/58/114). This information could be presented in a single document instead of three, achieving savings for all parties concerned (see ibid., paras. 6-8). The Advisory Committee notes that the Board of Auditors has recommended that the three reports be consolidated into a single report to be submitted by the Board, and that the Administration has agreed to the recommendation. The Committee was informed that the Board would, two years from now, present the text of the recommendation then the full comments of the Administration, provided that they were kept to a reasonable length, and finally the comments of the Board. This is to be implemented for the sixtieth session of the General Assembly, if the Assembly accepts the recommendation. **The Advisory Committee recommends that the General Assembly approve the Board's recommendation.**

18. In response to a request of the Advisory Committee regarding reporting on the impact of audit recommendations, the Committee was informed that a concept paper on this issue had been prepared by the Audit Operations Committee containing a definition of the responsibilities of the Board and those of the administrations of the various entities. In the opinion of the Audit Operations Committee, it would be the primary responsibility of the administrations to design the impact indicators and to measure the impact of the recommendations for review by the Board. The Committee was informed that this concept paper had been presented to the

administrations for comments. As a second step in the consultation, the Audit Operations Committee planned to meet with representatives of the administrations with a view to finalizing the approach and the procedures, including a timeline for implementation. The Committee welcomes this development, which would be consistent with the results-based concept. **The Committee trusts that these measures will ultimately address the concerns it has expressed in the past and looks forward to receiving information on progress made in this matter.**

Capital master plan

19. The Board of Auditors provided to the Advisory Committee a brief report on the capital master plan (A/58/321). In its resolution 57/292 of 20 December 2002, the General Assembly requested the Board and all other relevant oversight bodies to initiate immediate oversight activities on the capital master plan and to report to it annually thereon.

20. The Board informed the Advisory Committee that the activity and actual expenditure related to the capital master plan were limited at this stage. The first audit of the capital master plan financial statements will cover the biennium ending 31 December 2003. The Board's first report on the capital master plan will accordingly be transmitted to the General Assembly in time for consideration at the fifty-ninth session.

Management of staff training

21. The Board of Auditors has conducted a horizontal review of staff training in response to requests from both the Advisory Committee and the Secretary-General. The scope of the review of the Board and its main findings and recommendations are included in the annex below.

22. The Advisory Committee will revert to the comments of the Board on the management of staff training during its review of the budgets of peacekeeping operations for the period from 1 July 2004 to 30 June 2005 and also, as appropriate, during its review of activities financed by the United Nations regular budget and the budgets of the United Nations funds and programmes.

Notes

[1] *Official Records of the General Assembly, Fifty-eighth Session, Supplement No. 5E* (A/58/5/Add.5), chap. II.

[2] Ibid., chap. III.

[3] Ibid., chap. II, para. 68.

[4] Ibid., tables 1 and 3.

[5] Ibid., chap. V, note 1 to the financial statements.

[6] Ibid., chap. II, paras. 18 and 20.

[7] Ibid., chap. II, table 2 and para. 22, and chap. V, note 13 to the financial statements.

[8] Ibid., chap. II, para. 69 and table 5.

[9] Ibid., paras. 76-82.

[10] Ibid., para. 115.

[11] Ibid., paras. 111-113.

[12] Ibid., para. 127.

Annex

Review by the Board of Auditors of the management of staff training in the United Nations and its funds and programmes

1. Scope of the review

1. The Board of Auditors reviewed the management of training across the 18 departments, funds, programmes and institutes (all designated here as "entities" or "United Nations common system") covered in the Board's annual or biennial reports to the General Assembly. They reported some $59 million in direct training expenditures for the biennium 2000-2001 (peacekeeping operations not included). The Board dedicated 9 reviews to training, and the issue was reviewed during the course of 35 general audits between July 2002 and April 2003. They included the Secretariat's Office of Human Resources Management,[a] 11 other entities and 14 peacekeeping and political missions, or some two thirds of the entities audited by the Board. Findings were addressed in separate management letters, followed by a comprehensive management letter issued to all organizations, of which the present report is a shortened version. Their replies were taken fully into account. This report provides an overview of the findings and recommendations common to all or most organizations, unless otherwise specified; specific findings reported here are simply examples.

2. The review was conducted principally in accordance with financial regulation 7.5 of the Financial Regulations and Rules of the United Nations and the annex thereto, and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Most data were compiled as reported by the Administration, without being submitted to an in-depth audit by the Board.

3. The Board's focus was on the economy and efficiency of administrative processes as compared to sound training management principles: reporting; policy and planning; governance, knowledge-sharing, inter-agency coordination and support; and evaluation. The pedagogical contents were not reviewed, since this would have required specialized resources beyond the scope of the review.

4. The findings set out below are those that, in the Board's view, are of overall and particular importance relating to the management of training. They usually do not apply equally to all organizations; training management differs from one to the next. However, after considering the replies received, the Board is satisfied that the present report reflects the average situation.

5. The Board found a high level of staff commitment to training. Although many positive aspects are identified in the report, the review focused on the risks and on the areas for potential improvement.

2. Main findings

6. The main findings are as follows:

(a) The priority and perspective conferred by senior management on training and staff development were at the time of the review generally in conformity with international best principles and practices. Training policies, guidelines and plans

were frequently formulated in line with this priority; however, they were sometimes incomplete, missing or belatedly endorsed;

(b) Management information system, whether computerized or not, as applied to training expenditures did not always provide sufficient data to lead to well-informed planning decisions and monitoring. Due to the heterogeneity and sometimes the inadequacy of statistical and accounting frameworks, criteria and methods, indicators were not always comprehensive and reliable. Decentralization had led in some entities to a loss of reporting on activities;

(c) The United Nations Secretariat itself, which accounts for over one third of the total, could benefit from comprehensive reporting that would include not only training activities funded under the regular budget, but also those funded by extrabudgetary resources;

(d) Data could not be aggregated or compared without a significant margin of error at the United Nations common system level. Such comparisons might enhance planning decisions;

(e) Overall staff figures — indicating the total number of potential trainees — were not consistently reported system-wide due to the diversity in contractual status, duration and reporting methods. The entities under the scope of the Board of Auditors total: 28,103 of the 44,497 permanent staff members with appointments for a period of one year or more (excluding National Professional Officers and other employees with special contractual arrangements) reflected in the latest United Nations System Chief Executives Board for Coordination tables for the United Nations common system as at 31 December 2001; or almost double that figure: 54,953 of the 80,082 active participants reported as at the same date by the United Nations Joint Staff Pension Fund with contracts of more than six months and with pension benefits;

(f) As a result, ratios such as the percentage of training expenditures to total staff costs — a commonly used indicator in some Member States — could seldom be accurately computed;

(g) The United Nations entities seldom compared training ratios with those of other institutions. The few ratios available, such as the above-mentioned percentage of training expenditures compared to total staff costs, were often several times less than those indicated in most private sector benchmark data, although they are close to the figures provided by a few other international organizations. There might be a risk that resources devoted to training are insufficient to achieve the objectives;

(h) Training managers and units provided instances of successful planning, knowledge-sharing and delivery at many levels. Policy-setting and planning were nevertheless often deficient. Systems to optimize the planning of limited training resources were usually in place at large United Nations sites, such as the various headquarters locations and offices away from Headquarters;

(i) Regarding governance, the United Nations common system appeared to be in line with the trend that is moving away from a hierarchical organization towards decentralized networks of partnerships and alliances;

(j) The creation, effective January 2002, of the United Nations System Staff College, was too recent to allow an appraisal of its impact, although it had been in

existence previously as a project. Its output so far has been limited to a few programmes for a small percentage of the Professional staff in the short term;

(k) Outside the Staff College, synergy at the common system and decentralized levels could be improved. Inter-agency benchmarking and coordination was informal and did not result in consistent system-wide methods for developing and sharing reporting tools, materials or rosters of training providers at all appropriate geographical levels. The attainment of the goal of creating a United Nations common system "culture"[b] through training may therefore be handicapped, impairing the efficiency of significant human resources and expertise. However, in July 2003, after the Board's audit, the Human Resources Network of the High-level Committee on Management endorsed an organizational learning framework aimed at sharing and developing training practices and tools system-wide;

(l) Despite instructions regarding staff consultation on major human resources issues, management did not always include training issues in such consultations;

(m) Since strategic targets and achievements were less than reliably quantified, the evaluation systems used for monitoring the efficiency and effectiveness of training programmes were for some organizations inadequate. The measurement and the benchmarking of the effectiveness of training performance were in progress, but were still far from extensive. While this situation was found in many other institutions, it could impair results-based budgeting and the successful attainment of goals;

(n) Internal and external audits have shown many occurrences of a lack of adequate reporting, planning and coordination, leading to the risk of cost-inefficiency. This situation may affect the cost-effectiveness of the many human resources development efforts and thereby the attainment of the objectives set by the governing bodies.

3. Main recommendations

7. The Board's main recommendations are that the concerned organizations should, as relevant to their particular situation:

(a) Report on training activities and costs to its governing body and its senior management, as well as communicate such information to all staff members;

(b) Review management information systems in order to monitor training in a reliable manner;

(c) Consider sharing a set of similar core indicators across the United Nations common system to facilitate benchmarking in terms of deliverables and costs, such as a ratio comparing training expenditures against overall staff employed, including short-term staff assigned to medium-term or permanent tasks;

(d) Review whether the present level of funding for training and the results are consistent with the priority placed on staff development and take appropriate steps to align policy with the available means;

(e) Define or update and disseminate clear training policies and guidelines where this has not been achieved in line with the organizational learning framework endorsed by the Human Resources Network in July 2003;

(f) Develop rosters of training providers at the appropriate levels (headquarters, regional, country), to be shared among organizations;

(g) Develop more formally inter-agency sharing of training knowledge and materials, taking into consideration the role of the United Nations System Staff College;

(h) Review the governance infrastructure for training;

(i) Increase the evaluation of the results achieved through training to ascertain its impact on the effectiveness of operations.

8. **The Board's conclusion is that there is room for improvement in the management of staff training to better align the human resources capacity of the United Nations with its mission, structure and culture. Such steps should aim at ensuring adequate reporting on training resources, outputs and performance through the use of more accurate and comprehensive management information systems and more cohesive management of planning, reporting and knowledge-sharing.**

Notes

[a] The Office of Human Resources Management provided at the time of the audit regular budget funding for all Secretariat entities financed by the regular budget, including those in offices away from Headquarters, and for three peacekeeping missions, namely, the United Nations Military Observer Group in India and Pakistan, the United Nations Truce Supervision Organization and the United Nations Special Coordinator in the Occupied Territories.

[b] This concept appears in a number of reports of the Secretary-General to the General Assembly, most recently in the report on strengthening of the United Nations: an agenda for further change (A/57/387 and Corr.1).